



The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

Number 3

SUMMARY FOR 1949 REAL ESTATE OUTLOOK

- Real estate activity - Will continue to drop - but perhaps at a slower rate.
- Real estate values - Most types down - a few will move sideways. Little or no increase.
- Rent controls - At least one year, probably two or more. Little, if any, relief - end not in sight.
- Real estate mortgage activity - Although government action may promote some recovery, the trend will be down.
- Foreclosures - Some slight increases.
- Mortgage interest rates - Government can keep them fairly stable. Any rise will be slow.
- Real estate taxes - More increases.
- Leases - Percentage lease - will favor tenant during the next few years - fixed amount will favor owner.
- Construction costs - Lower, but not much.
- Construction volume - Also lower.
- Real estate owners - Generally speaking, sell.
- Real estate brokers - Reduce overhead - avoid overpriced listings.
- Property managers - Start cleaning up deferred maintenance. Build tenant good will while property is fully occupied.
- Mortgage lenders - Take conservative outlook. More government-insured loans - lower appraisals.
- Building material dealers - Build good will with customers - prepare for buyer's market. Keep inventories low.

BUILDING COSTS

Although the construction costs on our residential buildings rose slightly this month, the increased cost is due not to price changes so much as it is to a change in millwork specifications.

The millwork originally specified for these buildings has become obsolete and has been replaced by modern and improved materials. These materials cost considerably more than the original but their use reduces the labor necessary for their installation by almost enough to compensate for the added cost.

There were some price increases in other of the materials going into these buildings - plumbing and heating materials rose slightly, as did paint. Small decreases appeared in all of the rough lumber items, thus finally echoing the decreases that have been taking place in wholesale lumber prices for some time. Cost figures on these buildings and our commercial building are shown on pages 27 and 31.

It will be noticed that the commercial building showed a very substantial increase in cost. We have not been satisfied with our cost figures on this building and have, therefore, drastically revised our method of figuring the labor and overhead costs.

We feel that 1949 will very possibly see some reduction in construction costs due primarily to increased labor efficiency and lower material prices. We do not expect a general early decline in construction wages in spite of the recent report from Springfield, Missouri, that union carpenters, feeling that they had priced themselves out of work, voted to take a pay cut of 20%.

CONSTRUCTION VOLUME

The latest estimates on nonfarm residential construction volume for 1948 place the figure at 926,800 units. This is slightly above (3/4 of 1%) our guess of 920,000 published in "Real Estate in 1949." We believe that residential building will show some decline during 1949 - probably to about 850,000 nonfarm units. We expect that to achieve this figure more low-priced homes will be erected.

Our guess in the last quarter of 1948 was off about 12%. In October we estimated the last quarter volume would be 220,000 units. The last count shows 193,000 nonfarm units for that period.

Insofar as the dollar volume of all types of new construction is concerned, we think that it will not exceed the total of \$17.78 billion of 1948, and may quite possibly drop below that figure.

REAL ESTATE ACTIVITY

figure of 44.3.

Real estate activity closed out 1948 with a reading of 21.3 points above the long-range computed normal, a drop of 23.0 points from the December 1947

This drop was somewhat more rapid than we anticipated at the beginning of 1948, although the downward trend did follow our guess quite closely. We believe

INCREASES IN BUILDING COSTS SINCE 1939

(SAINT LOUIS)



SIX-ROOM BRICK HOUSE

(FRAME INTERIOR)*

Content: 23,100 cubic feet
1,520 square feet

Cost 1939: \$ 6,400

(27.7¢ per cubic foot; \$4.21 per square foot)

Cost today: \$14,834

(64.2¢ per cubic foot; \$9.75 per square foot)

INCREASE OVER 1939 = 132.0%



FIVE-ROOM BRICK VENEER HOUSE*

Content: 24,910 cubic feet

1,165 square feet

Cost 1939: \$ 5,440

(21.8¢ per cubic foot; \$ 4.67 per square foot)

Cost today: \$13,013

(52.3¢ per cubic foot; \$11.18 per square foot)

INCREASE OVER 1939 = 140.0%



SIX-ROOM FRAME HOUSE*

Content: 25,376 cubic feet

1,650 square feet

Cost 1939: \$ 5,894

(23.2¢ per cubic foot; \$3.57 per square foot)

Cost today: \$14,671

(57.8¢ per cubic foot; \$8.89 per square foot)

INCREASE OVER 1939 = 149.0%



6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT

Content: 12,119 cubic feet

992 square feet

Cost 1939: \$3,117

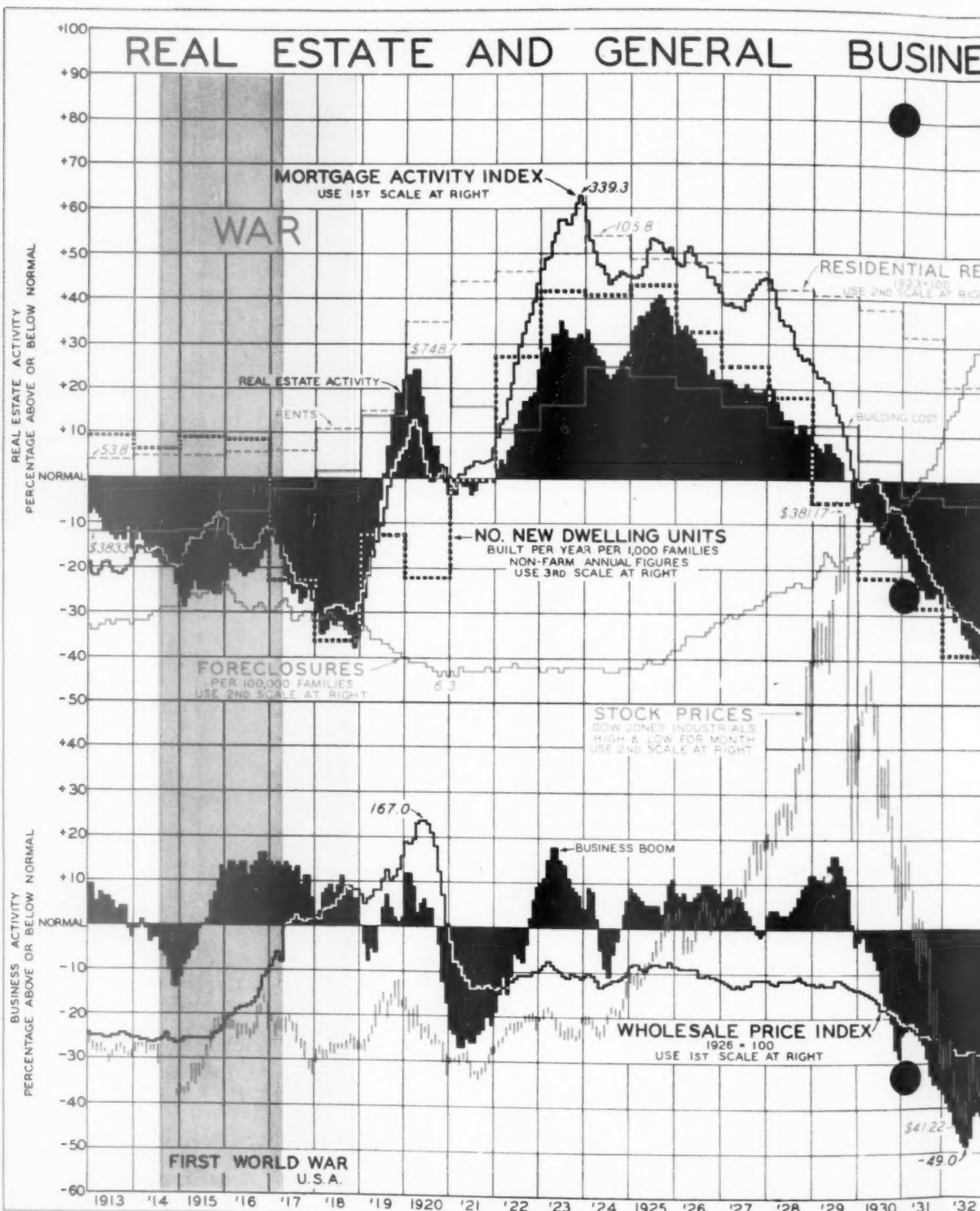
(25.6¢ per cubic foot; \$3.14 per square foot)

Cost today: \$7,663

(63.3¢ per cubic foot; \$7.74 per square foot)

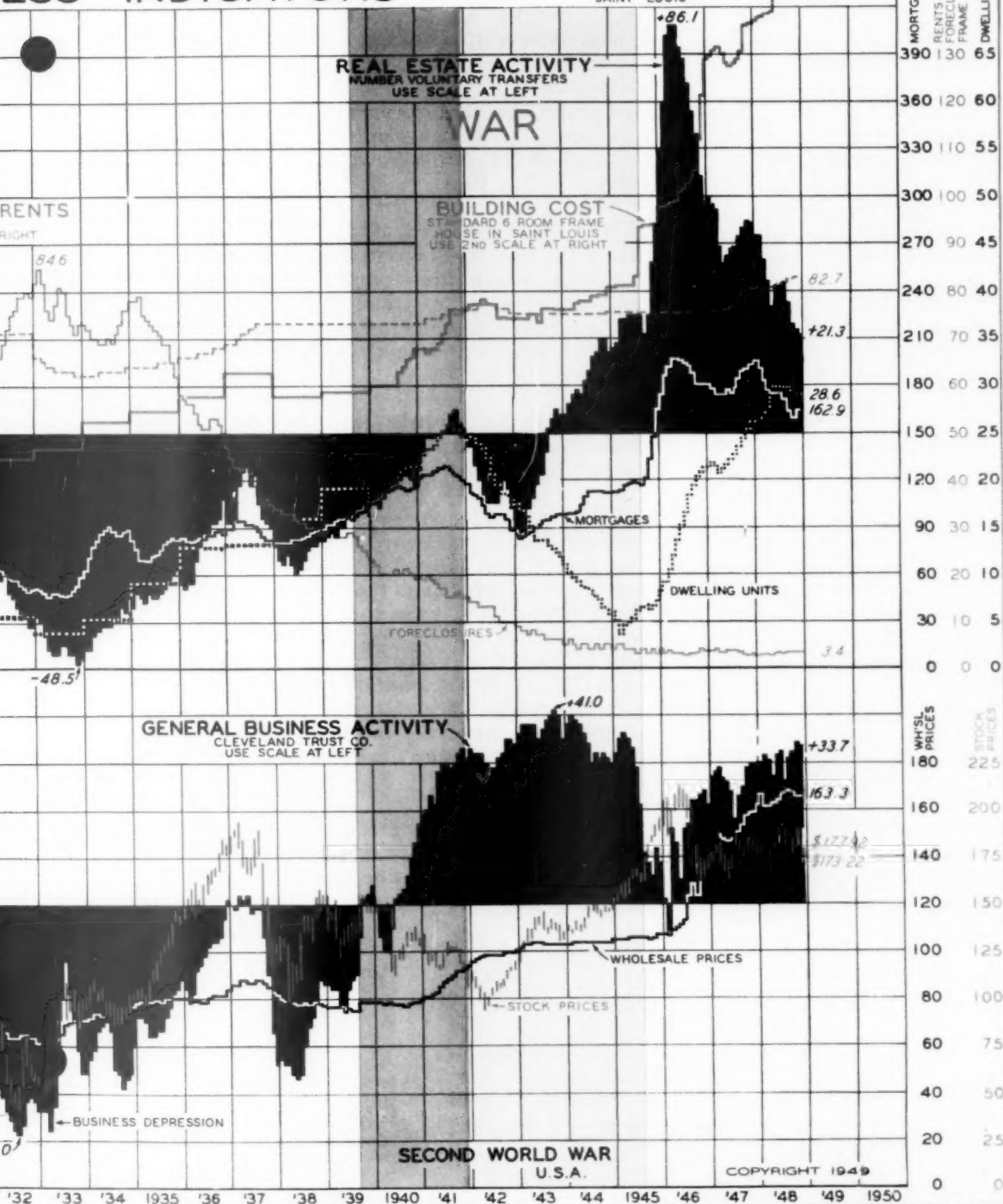
INCREASE OVER 1939 = 146.2%

*Costs include full basement.



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that the drop in 1949 may not be quite so fast and may even be interrupted slightly during the year.

We still believe that real estate activity will cross the normal line on its way down during 1950.

REAL ESTATE MORTGAGE ACTIVITY

During the month of November, mortgage activity recovered slightly to a reading of 162.9. This is an increase of 2.6 points above the October figure of 160.3.

We expect the trend of this index to remain downward during 1949. There is a possibility that the government will inflate mortgage activity somewhat by increasing the participation of the FNMA. At the present time it appears that government action will not be sufficient to completely reverse this trend, although it may bring about some short recoveries. The long-range view in mortgage activity continues to slant downward. During 1948 (first 11 months) the mortgage activity index dropped 34.1 points from 197.0 to 162.9.

FARM VALUES

During 1948 the average value per acre of farm lands rose to \$56.74. This is a record for the present boom, but it is still 18% below the record of \$69.40 reached during 1920.

We have felt for some time that farm lands were near their peak and have said on several occasions that we did not expect them to reach the level they did during 1920. We believe that 1949 will see a reduction of cash income for farms and for that reason expect to see farm land values level off some time during the later part of this year. The long-range view for farmers - good farmers - is quite optimistic, although not so rosy as the last year or two have been. The government is definitely committed to maintaining rather substantial price floors on farm products and this will forestall any ruinous drops in the price of farm products. We do believe that some drops will continue, however, and that some of the marginal and less enterprising farm operators will get into financial difficulties before the year is over.

Farm taxes continued to increase through 1947 (the last available figure) to an average of 53¢ per acre. This is within striking distance of the record high tax of 58¢ per acre reached during the late twenties. We will not be at all surprised to see the per acre farm tax reach a new high during 1948 or 1949.

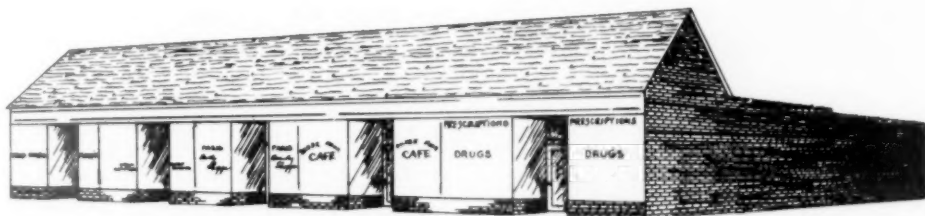
RENTS

In the face of the new rent bill which may run for two years or more, the following information on government housing rentals may be of interest.

The Housing and Home Finance Agency reported that in 1940 the average rent charged families admitted to public housing was \$17.95 per month. In 1945 the average rent charged to families admitted to public housing was \$22.59 - an increase of 26%. During this same period the rent index of private dwelling units rose only 3.7%.

INCREASES IN BUILDING COSTS SINCE 1939

(SAINT LOUIS)



COMMERCIAL BUILDING - NO BASEMENT

Content: 115,850 cubic feet
8,075 square feet

Cost today: \$46,709
(40.5¢ per cubic foot; \$5.78 per square foot)



18-FAMILY BRICK APARTMENT (FRAME INTERIOR)*

Content: 168,385 cubic feet
13,260 square feet

Cost 1939: \$ 60,300
(35.8¢ per cubic foot; \$ 4.55 per square foot)

Cost today: \$143,182
(85.1¢ per cubic foot; \$10.80 per square foot)

INCREASE OVER 1939 = 137.2%



30-UNIT REINFORCED CONCRETE APARTMENT*

Content: 303,534 cubic feet
21,372 square feet

Cost 1939: \$135,000
(44.5¢ per cubic foot; \$ 6.33 per square foot)

Cost today: \$301,294
(99.4¢ per cubic foot; \$14.10 per square foot)

INCREASE OVER 1939 = 123.0%

*Costs include full basement.

In 1940 the 22,807 dwelling units under the United States Housing Authority carried an average rental of \$19.31 per month. Six years later their average rental had increased 46% to a figure of \$28.33. While the government was allowing rent increases of this size on its own units, it was restricting private landlords to raises of less than 4%.

In other words, all public housing was allowed to increase rental rates seven times as fast as private landlords, while some government units increased their rates eleven times as fast as did units under rent control.

We doubt seriously if any opposition can withstand the rent control bill which will soon steamroll through Congress. We do feel, however, that as many people as possible should be made aware of the one-sidedness and unfairness of rent controls.

BUSINESS CONDITIONS

While expecting some continued decline in the feverish tempo of the boom, we believe that 1949 will be a good year for good business men. We think that there is a very strong possibility of less anti-business legislation from Congress than at first appeared forthcoming. There is even a distinct chance that the tax bill will not be so crushing a burden as Mr. Truman apparently envisions.

While Mr. Truman has demonstrated a degree of perseverance bordering at times on stubbornness, he is not the only stubborn man in Washington. There are quite a few in Congress - and all of them do not see exactly eye to eye with the President. When Administration's more radical proposals encounter the 81st Congress we expect them to be toned down quite a bit.